

**STATE OF MINNESOTA
DEPARTMENT OF COMMERCE**

Bulletin 97-7

Issued this 26th day of November, 1997

TO: ALL COMPANIES WRITING CROP HAIL INSURANCE IN MINNESOTA

This bulletin supersedes bulletin 96-5 and reminds all crop hail insurers of the requirements of Minnesota Statute 70A.04, subdivision 1, which states, "rates shall not be excessive, inadequate or unfairly discriminatory, nor shall an insurer use rates to engage in unfair price competition." In making your filing for the 1998 seasons, follow these guidelines:

1. Companies must file new rates for the 1998 season, and no new business may be written until your new rates are effective. All data must be documented and filed to justify your rates. The filings must be in our office prior to March 1, 1998.
2. Your filing must use the 1998 NCIS final average loss costs with catastrophe by township (FALC with catastrophe), or loss costs developed by using meaningful statistics from a large data base for a minimum of 20 years. Companies using the NCIS FALC will be allowed to adjust the NCIS FALC if their previous experience for a minimum of ten years compared to NCIS FALC for the same period justifies it. Companies using their own experience cannot deviate, either up or down, more than 15% from the NCIS FALC. Companies with a minimum of ten years experience may determine and use their own crop and policy form factors, but when the NCIS FALC is being modified or policy form or crop factors other than those filed or developed by NCIS are used, a consistent methodology must be approved and signed by a member of the Casualty Actuarial Society. The only exceptions are low liability townships and limitations by county as explained in paragraphs 3 and 4.
3. If a township is a low liability township as determined by NCIS data and defined in item 6, page 3, Exhibit B of the 1998 NCIS Final Average Loss Cost Filing, you may judgmentally modify the FALC with catastrophe for that township. This is to permit you to correct situations where the rate in a low liability area would otherwise be out of line with the rates of adjacent townships. Your filing must identify all townships where you do this.

4. You may use minimum and maximum FALC with catastrophe by county. The minimum must be at most one-half the county's normal loss cost, and the maximum must be at least twice the county's normal loss cost. For example, if a county's normal loss cost is 4.00, your selected minimum must be less than or equal to 2.00 and your selected maximum must be greater than or equal to 8.00. Your filing must specify each minimum and maximum, and the minimum and maximum must be balanced by county; that is, their expected effect on a county must be revenue neutral.
5. You must include a three year expense statement itemizing Production Expenses; Taxes, Licenses and Fees; General Expenses; Loss Adjusting Expenses; Contingencies; Other Expenses; Anticipated Underwriting Profit; and Discounts (except cash).
6. The formula for calculating the base rate is:

$$\text{Base Rate} = \text{NCIS FALC} / (1.00 - (\text{Expense Load plus Anticipated Profit}))$$

If you use your own FALC experience as explained in item 2, replace NCIS FALC in the formula with your own experience. You may separate fixed from variable expenses, but if you do so you must provide an actuarial analysis that identifies the different categories of expenses and demonstrates that the aggregate premium will be unchanged by the separation. Your filing must clearly demonstrate how to generate your rates from the NCIS FALC with catastrophe.

7. DISCOUNTS:

- A. Cash discounts may not exceed 3% unless a higher discount can be justified. The cash must be paid by July 1 of the crop season to qualify for the discount. For a policy written after July 1, the cash must accompany the application to the processing office to qualify for the discount.
- B. Claim-free discounts for crop hail coverage cannot be actuarially justified, so these discounts will not be allowed.
- C. Unless actuarially justified, a discount will not be allowed on crop hail premiums if a Multi-Peril policy (MPCI) is involved.
- D. Large volume discounts will be allowed on a graduated scale, but only to an extent justified by specific expense savings.
- E. Any other discounts must be actuarially justified and submitted over the signature of a member of the Casualty Actuarial Society.

- F. All discounts, except cash discounts, not offset by specific expense saving must be included in the expense statement mentioned in paragraph 5.
8. Indicate in the filing what percentage your rates changed from the prior year.
9. Do not file MPCl rates or forms, either as a formal filing or a courtesy filing.

Questions regarding the bulletin may be directed to Sherri Mortensen Brown at (612) 296-4024.

A handwritten signature in black ink, appearing to read "David B. Gruenes", written over a horizontal line.

DAVID B. GRUENES
Commissioner of Commerce